AN ANALYSIS OF THE CONCEPT OF FACTORY OUTLETS FOR NEW BRUNSWICK

EXECUTIVE SUMMARY

GOVERNMENT OF NEW BRUNSWICK

CANADA-NEW BRUNSWICK PLANNING SUBSIDIARY AGREEMENT

GOVERNMENT OF CANADA

WMS ASSOCIATES LTD.

QUEST-COM LTD.

March, 1990

TABLE OF CONTENTS

	Page
1.0 INTRODUCTION	1
1.1 Study Objectives	1
1.2 An Overview of the Factory Outlet Industry	1
1.2.1 United States/New England	1
1.2.2 Canada	2
1.2.3 New Brunswick	2
2.0 CONCEPT DEFINITION	4
2.1 Value Retailing Categories	4
2.2 Value Retailing Definition for New Brunswick	4
3.0 DEVELOPMENT CRITERIA	6
3.1 Locational Criteria	6
3.2 Operational Considerations	9
4.0 POTENTIAL FOR VALUE RETAILING IN NEW BRUNSWICK	10
4.1 Selection of Sites for Assessment	10
4.2 Application of Locational Criteria	10
4.4 Potential Products Suitable for Value Retailing	16
4.4.1 Existing Factory Outlets	16
4.4.2 Potential New Brunswick Products	18
4.4.3 Non-New Brunswick Products	19
4.5 New Brunswick Manufacturers	20
4.5.1 Selection of Manufacturers	20
4.5.2 Assessment of Potential Manufacturers	20
5.0 MARKET ANALYSIS	24
5.1 The Value Retail Customer	24
5.1.1 The U.S. Experience	24
5.1.2 The Canadian Customer	25
5.1.3 Customer Habits and Preferences	25
5.2 Retailer/Developer Profile	26
5.2.1 U.S./New England Developer Activities	26
5.2.2 Canadian Developers	27
5.3 Industry Trends	28
5 3.1 Retail Trends in the United States	28
5.3.2 Canadian Trends	29
5.3.3. Potential for New Brunswick	29
6.0 POTENTIAL EFFECTS OF VALUE RETAILING ON NEW BRUNSWICK	32
6.1 Employment Creation	32
6.2 Market for Manufacturer's Product	32
6.3 Tourism Industry Benefits	32
6.4 Taxation Revenue	33
6.5 Pressure on Infrastructure	33
6.6 Effects on Unconditional Grant System	34
6.7 Potential Effects on Existing Retailers	34
6.8 Quality of Life	34

91-06174/

7.0 CONCLUSIONS AND RECOMMENDATIONS 36
7.1 Conclusions 36
7.1.1 Major Conclusions 36
7.2 Recommendations 36
7.3 Implementation 37
7.3.1 Departmental Role 37
7.3.2 Distribution of Report 38
7.3.3 Industry Watch 39
7.3.4 Liaison Activities 39

1.0 INTRODUCTION

1.1 Study Objectives

The impact of the factory outlet system in the States of Maine and New Hampshire over the past ten years has provided the impetus for the New Brunswick Department of Commerce and Technology to commission an analysis of the concept of factory outlets in New Brunswick. The specific objective of the study is:

- To assess the potential of developing factory outlet centres in New Brunswick as an economic development tool for the province.

1.2 An Overview of the Factory Outlet Industry

1.2.1 United States/New England

The beginning of the factory outlet system in North America has its antecedents principally along the eastern seaboard of the United States from New England to the Carolinas. Over a century ago, these areas prospered from the industrial output of textile mills, footwear manufacturers and other manufacturers of wearing apparel. In time, various factories developed small outlets, usually as an adjunct, attached or adjacent to the manufacturing operation. These outlets sold seconds and irregulars of their products at substantially reduced prices - sometimes even at a loss.

The birthplace for the factory outlet retailing concept is commonly considered to be Reading, Pennsylvania. This small industrial community prospered on the basis of the textile industry during the late nineteenth and early twentieth centuries. However, by the 1970s, the textile mills lay vacant and decaying. Several apparel manufacturers, recognizing the value of the inexpensive space, renovated these mills for outlet purposes. By 1974, consumers from nearby Philadelphia and as far away as New York were travelling to Reading to take advantage of perceived special savings direct from the manufacturers. During 1974, the Reading Outlet Centre officially opened to the public.

Although Reading, Pa. is considered the birthplace of the modern factory outlet concept, it is in New England where the concept has gained its widest public acceptance. From a modest start in Freeport, Maine in 1981 by Dansk, a Scandinavian housewares manufacturer, the factory outlet system has spread throughout New England. By the beginning of 1989, over 1100 stores had been established throughout the region.

1.2.2 Canada

In contrast to the United States growth experience with factory outlet/off-price retailing during the past ten years, Canadian manufacturers and retailers are just beginning to consider the concept. The primary deterrent to the development of the outlet system in Canada has been the lack of sufficient brand name manufacturers with the capacity to generate the necessary quantity and variety of goods to supply outlet stores.

This lack of Canadian manufacturers, coupled with the traditionally stronger bond between conventional retailers and producers in Canada than in the United States, has been a major stumbling block in the evolution of outlet/off-price stores. Some early efforts in the Toronto area in 1982 met with solid opposition from traditional retailers who went so far as to boycott products from manufacturers that participated in outlet centres.

1.2.3 New Brunswick

In New Brunswick, the factory outlet concept is limited to two distinct types of outlets. The first type operates in quarters that are part of the same structure as the manufacturing operation and retails seconds or premium goods. This includes such firms as Hartt Shoes, A Division of Church & Co. (Canada) Ltd., Ganong Bros. Limited and Chemise J.M.L. Ltée (La) - J.M.L. Shirt Ltd.

The second type usually has made an effort to separate outlet products from the main production area but not in a distinctive retail setting (i.e., Connors Brothers, Briggs & Little, Wheeler Accessories, Madawaska Weavers, Cottage Craft).

Other firms which produce products such as custom woodworking and ceramics in modest facilities with limited staff occasionally market seconds. These sales only occur, however, when there is sufficient volume of seconds to sell and do not constitute normal factory outlet operations.

2.0 CONCEPT DEFINITION

2.1 Value Retailing Categories

Value Retail News, the leading industry trade journal focusing on North American Outlet merchandising, defines separate categories under value retailing where stores sell quality or brand-name merchandise at reduced prices:

- Off-price is most often used to distinguish value retail chains not owned or operated by a manufacturer from those which are. Off-price strategies vary, with differing concepts of what constitutes nationally known brands, and with merchandise mixes consisting of varying percentages of legitimate brand-name goods;

- Outlet stores are those operated by a manufacturer. Most outlet chains buy outside goods to supplement their merchandise mix. Outlets must avoid competing with their wholesale accounts, so site selection principles for these chains are unique and critical to their success. Some manufacturers refuse to sell to off-price chains, using aggressive outlet operations instead to maintain control over their product distribution; and

- Discount stores sell inexpensive merchandise cheaply, as opposed to value retail stores, which sell brand-name or quality merchandise at reduced prices. The distinction is not always clear. For example, 25 percent of K-Mart's apparel mix is brand-name merchandise, and another 25 percent consists of its own heavily promoted private-label goods.

2.2 Value Retailing Definition for New Brunswick

Value retailing outlets currently operating in New Brunswick are primarily factory outlets, owned by a specific manufacturer, selling that manufacturer's goods and, mostly, attached to or in close proximity to the manufacturing facility. The product range of goods marketed through these facilities includes premium goods at premium prices, seconds at discounted prices and first line goods at regular retail prices.

If the value retailing concept is to be pursued in New Brunswick, value retailing should include the existing factory outlets which are a valid means of marketing cheaply and conveniently a manufacturer's product. However, value retailing establishments must include recognized brand name goods to be successful. In addition to the brand name goods, priority then should be given to the promoter of first, New Brunswick and, second, Maritime-manufactured goods. Consideration should be given to cooperative efforts amongst groups of manufacturers with similar product lines. Consistent with value retail industry trends in the United States, the mixing of regular retail price first line goods, discounted good and seconds is acceptable.

3.0 DEVELOPMENT CRITERIA

3.1 Locational Criteria

Locational criteria refers to the factors which a developer must consider when deciding to build an outlet mall in a specific location or an entrepreneur must consider when deciding whether to locate in a specific development.

Figure 1 graphically illustrates ten locational criteria involved in the decision to choose a specific location for a factory outlet or off-price facility.

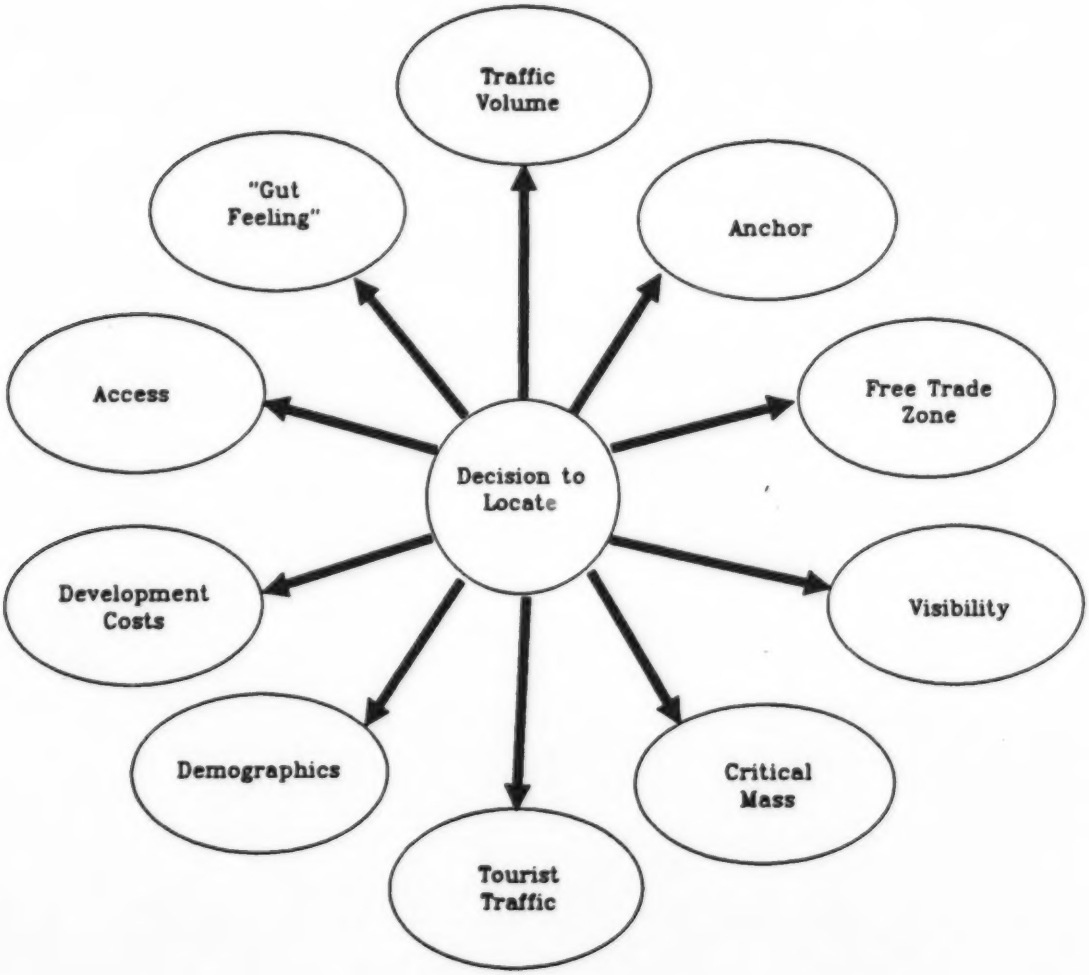
The single most important factor in locating an outlet facility is traffic volume. In New England, factory outlet developments are characteristically located adjacent to major traffic flows (Interstate Highways, major arteries) and convenient exits from those traffic flows (if they are restricted access highways).

The existence of an "anchor" is critical to the success of factory outlet locations particularly in the early stages of development. An anchor is a major store with a regional or national reputation, or a major tourist attraction. In Freeport, L.L. Bean is the anchor; in Kittery, the Kittery Trading Post and in North Conway, the mountains and skiing are the major anchors, respectively.

Access considerations play an important part in locating an outlet or outlet mall. This includes access from the interstate (convenient exit), access from the highway on which it is located (cutting across traffic, intersection location), vehicular movement from location to location, access to individual stores, pedestrian circulation and parking.

Visibility is an important consideration in locating outlets. This includes visibility of the outlet mall/concentration of stores to the traffic and the visibility of individual outlets within outlet groupings.

FIGURE 1: LOCATIONAL CRITERIA



The concept of critical mass is fundamental to the success of outlet centres. Critical mass is defined as the minimum number of retail outlets located in an area such that the grouping of stores becomes an attraction in itself capable of drawing customers to the site as a destination.

Tourist traffic constitutes a major source of revenue for factory outlets. Tourists are prime targets for factory outlets because they have money to spend and time to shop. Surveys have consistently indicated that shopping is a recreational activity for tourists (Value Retail News).

Demographics, that is, the distribution and statistical description of population, are a factor in any retail feasibility analysis. Developers and individual store operators consider population distribution and average annual household income as one factor in deciding on the location of a retail outlet.

Increasingly, development costs are playing a part in the decision process on where to locate outlets.

The "Free Trade Zone" concept refers to the minimum distance that manufacturers will locate factory outlets from their wholesale accounts. According to Value Retail News, the minimum distance of outlets from department stores was 29 miles in 1983, 21.8 miles in 1985 and 18.9 miles in 1988.

This concept has particular applicability to Canada where the relationship between manufacturers and retailers is much stronger and, as a result, the free trade zone pressures will be greater.

Ultimately, although all of the locational factors discussed in this section will play a part in the decision on where to locate a factory outlet, the final decision frequently depends on the "gut feeling" of the developer. This point was made quite strongly by the developer representative interviewed. Whereas the nine other criteria are a science, "gut feeling" is an art based upon the experience of the developer.

3.2 Operational Considerations

There are a number of operational considerations which constitute development criteria in relation to the establishment of factory outlets:

- Labour availability;
- Store size requirements;
- Access to wholesale product; and
- Seasonal operations.

4.0 POTENTIAL FOR VALUE RETAILING IN NEW BRUNSWICK

Eleven potential locations in New Brunswick are evaluated against the ten locational criteria to assess the potential for development of value retail facilities in New Brunswick. Potential products suitable for value retail merchandising in New Brunswick and provincial manufacturers producing those products are examined to assess their applicability for value retail merchandising.

4.1 Selection of Sites for Assessment

The eleven locations selected are distributed throughout the Province (illustrated in Figure 2) in order to give equitable distribution consistent with one of the major thrusts of Toward 2000 - An Economic Development Strategy for New Brunswick. This thrust involves a commitment to "achieve equity in regional economic development efforts". In addition, the commitment to a "gateway system that will give a strong sense of arrival and an invitation to stay and visit", as expressed in the recently released Tourism Strategy Toward the Year 2000, was considered.

Within the requirements for province-wide and entry point distribution, specific locations were chosen based on anticipated traffic volumes, the existence of some form of anchor, tourist traffic and demographics.

4.2 Application of Locational Criteria

The eleven sites are measured against the locational criteria by the use of an evaluation grid (Figure 3). Each of the ten locational criteria are assigned a weighting appropriate to the importance of that criteria in locating value merchandising outlets. Each of the eleven sites will be scored in relation to each of the criteria. Totalled scores for each location allow ranking of the locations in order of suitability for value merchandising outlet development.

FIGURE 2: POTENTIAL NEW BRUNSWICK VALUE MERCHANDISING LOCATIONS

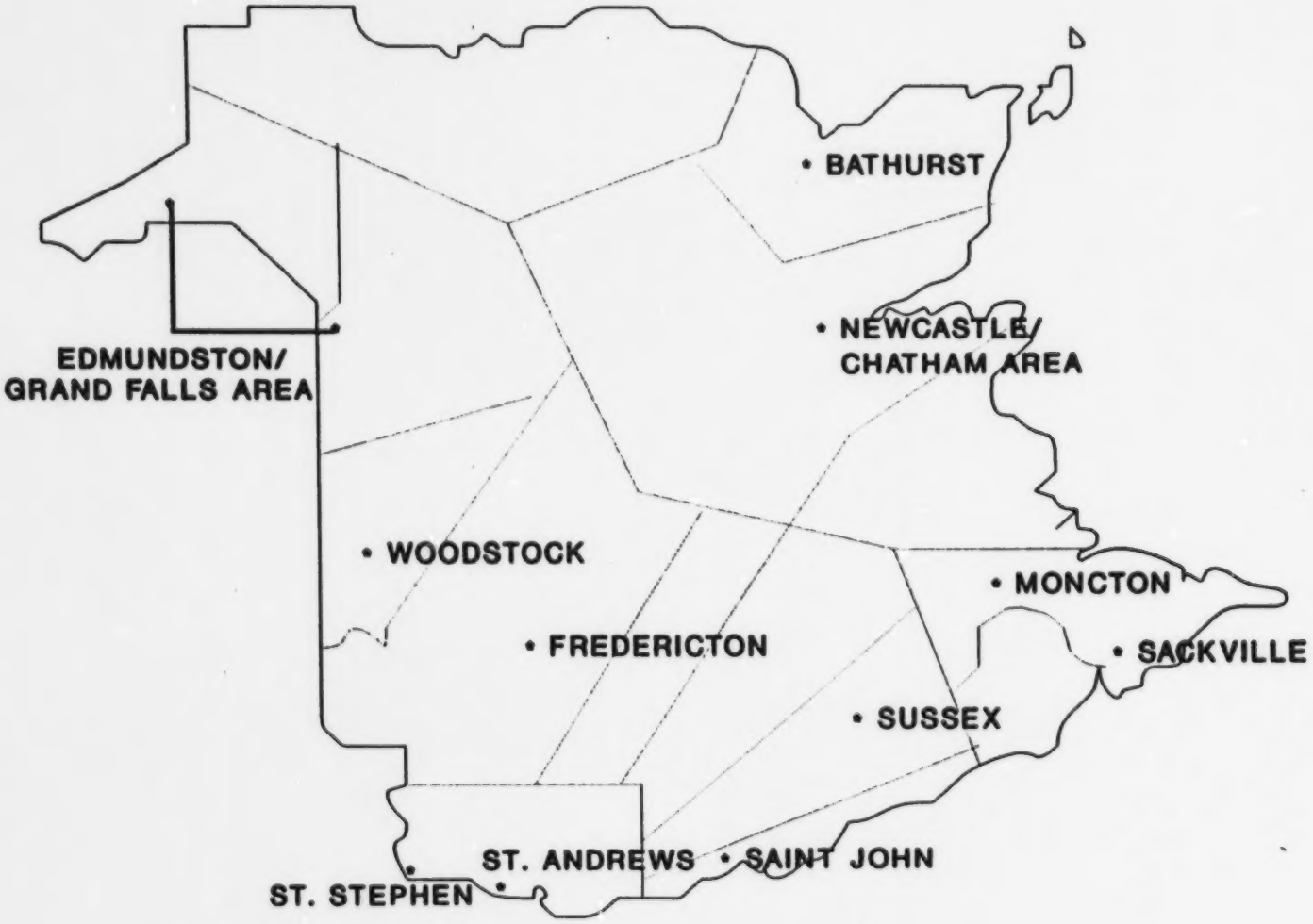


FIGURE 3: EVALUATION GRID – ASSESSMENT OF POTENTIAL VALUE MERCHANDISING LOCATIONS

		BENCHMARKS		NEW BRUNSWICK LOCATIONS										
CRITERIA	SCORE	Freeport, Me.	Ellsworth, Me.	St. Stephen	Woodstock	Grand Falls/ Edmundston	Sackville	St. Andrews	Sussex	Bathurst	Newcastle/ Chatham	Moncton	Saint John	Fredericton
TRAFFIC VOLUME	20	17	12	10	8	12	11	6	13	14	14	17	18	16
ANCHOR	20	20	20	10	7	14	7	13	12	13	7	16	16	14
FREE TRADE ZONE	15	13	3	13	13	8	9	14	14	3	3	2	2	2
VISABILITY	15	13	12	8	10	10	10	10	10	10	10	12	10	10
CRITICAL MASS	15	15	11	0	0	7	0	0	0	5	2	7	7	7
TOURIST TRAFFIC	15	15	14	7	6	10	12	8	12	7	8	13	12	11
DEMOGRAPHICS	10	10	4	4	5	4	5	4	7	4	4	5	6	6
DEVELOPMENT COSTS	10	4	4	6	6	6	7	7	7	6	6	5	5	5
ACCESS	10	8	7	5	5	5	4	5	5	5	6	6	5	5
GUT FEELING	10	10	10	7	4	5	4	7	9	3	3	8	7	6
TOTAL	140	123	97	70	63	82	68	73	88	70	63	91	88	82
RANKING	N/A	N/A	N/A	7	10	4	9	6	2	7	11	1	2	4

The top five rated locations in New Brunswick were:

1. Moncton - The Moncton area, where the concept of value retailing outlets is already under consideration, ranked highest primarily on the basis of traffic volumes (year round and tourist traffic) and the existence of a breadth of attractions, services and shopping opportunities such as would constitute an anchor.

2. Sussex - The Sussex and Saint John areas were rated equal in potential for value retailing outlets. The Sussex area scored highly in the areas of traffic volume, tourist traffic and particularly in the "free trade zone" category. This is particularly relevant in that of the top four rated locations, Sussex is the only one that would not be restricted by "free trade zone" considerations, and thus, may be the only location of the top four which is actually viable for further consideration.

   Sussex's strength with regards to potential location of outlets lies with its strategic location in the centre of the Province at the intersection of two major traffic arteries - Route 1 and 2. The proposed re-alignment and twinning of the TCH (Highway 2) may have a substantial impact on this strategic location depending upon the affect the re-alignment has on the location of this intersection. Plans for the re-alignment are currently not firm and subject to availability of funding.

   From a tourism industry perspective, location of potential value retailing outlets in the Sussex area has several advantages. The location of Sussex in the south-central part of the Province would encourage outlet shoppers to remain longer in the Province and provide opportunities to market New Brunswick attractions. Sussex is strategically located to take advantage of tourist attractions and facilities in Fredericton, Moncton and Saint John.

3. Saint John - The Saint John area rated highly due to large traffic volumes (year round and tourist) and the existence of an "anchor" composed of the broad range

of attractions, services and shopping facilities. The location also achieved some critical mass due to the range of shopping opportunities. The major weakness associated with a Saint John location would be the "free trade zone" implications.

4. Fredericton - Fredericton and Grand Falls/Edmundston rated fourth highest. The Fredericton area benefitted from high traffic volumes (year round and tourist) and an "anchor" composed of the array of attractions, services and shopping opportunities in the area. Fredericton is strategically located in the centre of the Province at the juncture of several major traffic arteries - Routes 2, 3, 7, 8 and 10. The major weakness of the Fredericton area in consideration of potential location of outlets is due to "free trade zone" limitations. Fredericton is a growing regional shopping destination with many brand name stores. There are several "factory outlets" in the city but they are relatively insignificant in terms of their impact on the Fredericton retail market and they are not truly value retailing outlets in that they do not offer significantly discounted prices.

5. Grand Falls/Edmundston - The Grand Falls/Edmundston area scored relatively high in terms of traffic volumes (year round and tourist) and in the existence of an "anchor" composed of the array of attractions (year round), services and shopping opportunities. Free trade zone considerations were less of a constraint in this area than in Moncton, Fredericton and Saint John, as a potential facility could be located in the area so as to minimize conflict with existing retail operations. There are more free trade zone implications for this area, however, than for the Sussex area.

Of the five top rated potential locations in New Brunswick, Fredericton, Saint John and Moncton could be severely impacted by "free trade zone" constraints. According to industry sources in the United States, these constraints are real and seriously considered by manufacturers in their planning. In fact, the accepted 30 kilometre (1988) standard in the United States may actually be greater in Canada where the relationship between the manufacturer and their wholesale accounts is much stronger. Due to the relative absence of value retailing facilities in Canada and the resulting lack

of research into the concept in the Canadian context, the free trade zone, although it will exist, has never been defined.

If the assessed scores for "Free Trade Zone" and "Gut Feeling" for the five top rated locations in New Brunswick were removed, the locations would be ranked in the following order:

1. Sussex
2. Grand Falls/Edmundston
3. Moncton
4. Saint John
5. Fredericton

This ranking, in view of "free trade zone" constraints, is more accurate and realistic.

The remaining six locations investigated were ranked as follows:

6. St. Andrews - St. Andrews, as one of the Province's primary tourism destination areas, rated highly in the areas of anchor and free trade zone. Although it is a tourism destination area, the traffic volumes (year round and tourist) were not as high as those for the locations in the top five.

7. St. Stephen - St. Stephen and Bathurst were rated equal in potential for value retail outlets. St. Stephen was rated highly in terms of free trade zone implications and gut feeling and modestly for traffic volumes relative to other locations. The rating for St. Stephen was based upon the proposed location in the Ganong factory building and without the proposed trucking bypass and extra border crossing.

   Of concern to proponents of a St. Stephen value retail facility should be the planned value retail facilities in the Ellsworth area. L.L. Bean has decided to locate a factory outlet in Ellsworth and thus, in conjunction with the presence of Acadia National Park and the attractions and services associated with the Bar Harbour area, constitutes a formidable anchor. Ellsworth is only 190 kilometres

from St. Stephen and the location of outlets in Ellsworth will affect the potential market for such facilities in St. Stephen.

8. Bathurst - Bathurst rated highly for yearly traffic volumes and anchor but was subject to free trade zone implications due to the role of the community as a regional shopping destination.

9. Sackville - Sackville, as a potential location for value retailing outlets, was rated highly in terms of traffic volumes (full year and tourist) but only achieved modest scores in other categories. Specifically the area was lacking a suitable critical mass and had only modest potential for an anchor.

10. Woodstock - Woodstock is strategically located with regards to the border crossing to Houlton, Me. and the connection with I-95 a primary north/south interstate for New England. Traffic volumes, however, are not sufficient for the location to be considered as a potential outlet location. In addition, there is a lack of anchor and critical mass.

11. Newcastle/Chatham - The Newcastle/Chatham area rated highly for total annual traffic and moderately for tourist traffic. In all other areas, however, the area rated low against the locational criteria.

4.4 Potential Products Suitable for Value Retailing

4.4.1 Existing Factory Outlets

In New Brunswick there are a limited number of factory outlets distributed throughout the Province. These outlets are consistent, for the most part, with the above definitions. New Brunswick outlets are listed in Table 1.

TABLE 1: NEW BRUNSWICK OUTLET OPERATIONS

Outlet/Manufacturer	Employees	Location	Product Sold
Chemise J.M.L. Ltée J.M.L. Shirt	50-65	Edmundston	Shirts, assorted mens and ladies clothing
Tisserands Madawaska Weavers Ltd.	36-37	St. Leonard	skirts, mufflers,neckties, napkins, tablecloths
Hartt Shoes, A Division of Church & Co. (Canada) Ltd.	130-155	Fredericton	men's boots and shoes
Wheeler Accessories Ltd.	6-8	Fredericton	wallets, backpacks, bags
Island Beach Co. Factory Outlet	-	Fredericton	T-shirts, sweatsuits, (silkscreened products)
Loomcrofters	8	Gagetown	curtains, draperies, pillows, neckties, towels, rugs, afghans, tablecloths, napkins, mufflers, scarves
Briggs & Little Woolen Mills Ltd.	6-31	York Mills	spun yarn, blankets
Ganong Bros. Ltd.	200-275	St. Stephen	chocolate products, candy
Connor's Bros. Ltd.	400-600	Blacks Harbour	canned and frozen fish products
Benneton Factory Outlet	-	Moncton	ladies clothing

Note: The number of employees listed for each firm is the total number including manufacturing and outlet operations.

4.4.2 Potential New Brunswick Products

Products sold through value retail outlets in the United States (specifically Maine and New Hampshire) vary but can best be characterized as portable and non-perishable (although freshness may be desirable). Aside from franchised food operations offering food for immediate consumption, only one outlet marketing perishable foodstuffs was found during field work. This firm, Ducktrap River Fish Farm of Lincolnville, Maine, markets smoked seafood products by mail order (packed in ice) to an up-scale market. Outlets marketing large goods such as furniture do exist but they are selling primarily to a local urban market and normally located in urban centres for that purpose.

The market to be addressed by any potential New Brunswick outlet location would be composed largely of pass-through traffic (year round or tourist traffic). The experience in Maine and New Hampshire has been that local residents only constitute a minuscule portion of the outlet customers (by choice and by size of resident population). Thus, the product lines to be considered for marketing in value retailing outlets in New Brunswick should be portable and non-perishable.

Based on research into the value retailing industry in the United States and using the 1989 Directory of Products and Manufacturers - New Brunswick, the following New Brunswick products were selected for consideration for value retailing:

- fish products;
- sugar and chocolate confectionary;
- luggage, purses and handbags;
- clothing;
- footwear;
- furniture;

- other wood products;
- brewery products;
- glass and glass products;
- leather and allied products; and
- toys and games.

Each of these product groupings represents products that are (or can be) non-perishable and all are portable with the exception of furniture which can include small portable items.

4.4.3 Non-New Brunswick Products

Due to the product weakness (lack of brand names, insufficient manufacturing capacity) inherent in the manufacturing sector in the Province when considering products appropriate for value retail sales, consideration will have to be given to selling non-New Brunswick products in outlets if the concept is to be pursued. Although this would not constitute support for New Brunswick manufacturers, it could generate employment and income at the retail level (as would any successful shopping centre).

Two categories of non-New Brunswick products should be considered for any potential value retailing project in New Brunswick. Atlantic Canada products would be consistent with and complementary to products of New Brunswick manufacturers. The other category of non-New Brunswick products to be considered would be brand name products with international recognition. These products have achieved the maximum amount of success in value retailing in the United States.

4.5 New Brunswick Manufacturers

4.5.1 Selection of Manufacturers

Part of the requirement to assess the potential of developing factory outlet centres in New Brunswick as an economic development tool is the identification of manufacturers/ processors in the Province with potential for this type of retailing.

The literature search, agency interviews and field work identified product categories being successfully marketed through value retail outlets in the United States. These product groupings were then compared with the product group listings in the 1989 Directory of Products and Manufacturers to find similar products manufactured in New Brunswick. The resultant listing of New Brunswick products was then used to acquire, from the 1989 Directory database, a listing of manufacturers in the Province manufacturing these goods.

4.5.2 Assessment of Potential Manufacturers

The companies listed represent New Brunswick manufacturers of products with potential for value retail sales regardless of the size of the firm. Many of the companies listed are too small to generate adequate volume of product to stock a value retailing establishment on their own with first line goods, much less seconds or overruns. The only opportunity for smaller firms to participate in this marketplace is cooperatively with other firms producing similar or compatible products.

The listing of New Brunswick firms producing **fish products** involved 160 companies employing between 3,628 and 13,788 persons in total depending upon the season. Only the top 46 firms actually employed 100 people or more at peak periods reflecting the very seasonal nature of the fish processing industry. Potentially, these larger firms involved in the production of non-perishable (canned) or less perishable (i.e., dried, smoked), could supply a factory outlet. Some, such as Connors or Starkist, may have brand name recognition. The major limitation for this product type is the lack of market appeal.

There are four producers of **sugar and chocolate confectionary products** in the Province. Of the four, Ganong Brothers is the only one with capacity sufficient to support a factory outlet.

There is one firm in the Province engaged in the production of **luggage, purses and handbags** - Wheeler Accessories Ltd. The firm is relatively small (9-12 employees) and already operates a small outlet at its manufacturing facility. It is doubtful, at current levels of production, that the firm could sustain a second outlet remote from its manufacturing facility. The product does not have brand name recognition outside of the Province.

There are a total of 38 **clothing** manufacturers in the Province ranging from firms with one employee to a firm with 200 to 300 employees. Of the 38 firms, 14 have ten employees or less and would be unlikely to be able to independently sustain an outlet. The largest firm on the list, Chemise J.M.L. Ltée - J.M.L. Shirt already operates a small outlet adjacent to its manufacturing facility; there is potential, though, for a J.M.L. Shirt outlet in another outlet location. Shirts are sometimes sold through outlets in the United States (i.e., Hathaway Shirts) and the only limitation J.M.L. Shirts would have in the marketplace would be lack of brand name recognition.

Two firms in the Province manufacture **footwear**. Only one of the two, Hartt Shoes, has sufficient capacity to sustain an outlet operation for first line goods or seconds. Hartt Shoes already operates a small outlet for seconds as part of its production facility and Hartt seconds are occasionally sold in a limited number of discount stores in the Province (i.e., Penny-Saver, St. Stephen). Although Hartt Shoes produces goods of quality with brand name recognition in adequate quantities to stock an outlet, further specific studies in relation to footwear would be necessary to assess feasibility of marketing Hartt Shoe products in an outlet mall remote from the factory. Hartt Shoe products would be competing with much cheaper products available through outlets in Maine.

The **furniture and fixture** industry in New Brunswick consists of fifty firms employing, in total, between 464 and 631 persons. Of these fifty firms, only six employ twenty or more people. There may be potential for the top two firms in the listing,

Nadeau and Nadeau Limited and Springwall East/Atlantic Sleep Products to establish outlets in an value retailing outlet development to address a regional (Maritime) market.

The same fifty firms are listed as **manufacturers of other wood products**. Although these other wood products may be more appropriate for value retailing (i.e., portable and unique), the same constraints induced by limited production capabilities apply. Outlets selling small wood products have experienced success in outlet developments in the United States. Their success is directly limited to the uniqueness, quality and novelty of their product. Woodworking firms producing such products could successfully market through outlet developments.

There are three firms in the **brewery products** industry in New Brunswick. Two of the firms, Moosehead and Labatts, produce nationally, and in some cases internationally, recognized brand names. Specifically, Moosehead has, in recent years, experienced success in marketing Moosehead products in the United States. Both of these firms have sufficient capacity to sustain outlet sales. The third firm, Hanshaus Brewery, produces a product unique to New Brunswick and could appeal to a specialty market.

Neither of the two firms producing **glass and glass products** in New Brunswick would be appropriate for consideration for value retail marketing. Consumer's Glass produces bottles (beer, pop) for wholesale customers and does not manufacture products for those retail markets. Vitreries produces glass, glass panels and thermal products.

There are five small manufacturers of **leather and allied products** in New Brunswick, all of whom have five employees or less. Two of the five produce harness and saddlery products while the other three produce a variety of retail oriented leather products (i.e. purses, belts). The three firms producing consumer leather products have between 2 and 5 employees each depending on the season. This would imply insufficient production capacity to sustain an outlet operation.

Toys and games are products successfully marketed through value retail outlets in the United States. In New Brunswick there are four toy and game manufacturers

listed, each of which have fewer than seven employees. This would imply limited production capacity to sustain an outlet operation.

Of the eleven product groupings for which New Brunswick manufacturers were assessed, only four have Provincial manufacturers with potential for value retailing - fish products, sugar and chocolate confectionary products, clothing and furniture and fixtures. Of these, fish products and furniture and fixtures have limited applicability due to limited market demand (fish products) and the size of the product (furniture). Of the remaining seven categories, there is limited potential for marketing through factory outlets as part of an outlet development remote from the location of production due to limited production capacity. Given the above, it can be concluded that the value retail outlet concept has very limited applicability to New Brunswick manufacturers.

5.0 MARKET ANALYSIS

5.1 The Value Retail Customer

5.1.1 The U.S. Experience

The first industry promoters of factory outlets and off-price centres believed a major portion of their customers came from the upscale market. A survey conducted by Value Retail News in 1989 demonstrated this assumption. Overall, 29 percent of outlet/off-price shoppers reported household incomes in the $50,000-$75,000 category. An additional seven percent indicated their income as exceeding $75,000. On the other hand, the survey also disclosed the largest household income group to shop at factory outlets and off-price stores was in the $10,000-$20,000 category. In addition to these significant findings, the survey indicated the general lack of participation by customers in the middle income brackets. With such an under-representation, value retailers are missing a marketing opportunity.

Among the many features which drew customers to outlets, the most prominent is "value for money spent", followed by price, selection, style and fashion. These findings are consistent with the results of interviews with retailers and developers throughout Maine and New Hampshire. In some cases, tenant mix was confirmed as another important ingredient in the decision making process of the customer.

In other findings of the Value Retail News survey, shoppers at factory outlets and off-price stores had a high level of self-esteem. In other words, as a group, decisions to purchase were based on a strong regard for high quality and product familiarity. Most shoppers had made conscious decisions to visit a particular store while 25 percent of the survey group identified "general shopping" as a motivating factor for their trips.

Approximately 26 percent of shoppers visiting factory outlets had travelled at least 50 kilometres. These shoppers tended to place a higher value on brands and price, while shoppers travelling less than 50 kilometres opted for recreational shopping and put higher value on store appearance.

5.1.2 The Canadian Customer

Tabulating data for a profile of the potential factory outlet customer in Canada is difficult. None of the industry organizations in Canada including the Retail Council of Canada and Canadian Manufacturers Association have compiled information related to the factory outlet system or off-price retailing. In fact, the general trade sources for value retailing restrict themselves almost exclusively to discount stores.

5.1.3 Customer Habits and Preferences

Studies conducted by a few factory outlet malls in the United States have been reported by Value Retail News. In one such poll in 1987, the mall outlet pinpointed several characteristics about their customers:

- 60 percent of those interviewed had shopped at outlets for a year or more;
- 19.5 percent had shopped at that location for 3 to 4 months;
- the balance of those polled had been shoppers there for the past year; and
- over 42 percent shopped there **less than** once a month and 26.8 percent shopped there monthly.

On the matter of shopping motivation:

- 46.8 percent indicated price was the principal factor;
- 36.8 percent favoured location/convenience;
- 38.6 percent cited store preference; and
- knowledge of the outlet by customers was frequently (28.3 percent) learned by word-of-mouth from friends and relatives.

Equally important to retailers and developers are the results of a 1987 survey of 400 shoppers at outlet and off-price stores concerning shopping tendencies. Clearly there were several significant differences between the habits of outlet customers and off-price shoppers. The Value Retail Institute, which conducted the study, found that:

- outlet shoppers tended to place less importance on service than off-price shoppers. Among all service features provided by these stores, including decor, personnel, credit card acceptance and returns policy, outlet customers did not view them as important as off-price shoppers did;

- outlet shoppers usually drive greater distances for their shopping than off-price customers. The majority of outlet patrons travelled at least 65 km while the off-price customers averaged 20-25 km. Many factory outlets are rural-based, partially accounting for this wide margin;

- in terms of shopping orientation, outlet customers tended to rely more on cash than credit card charges while off-price customers leaned towards a wider use of credit cards;

- the average outlet shopper is older than the average off-price customer. The typical profile for an outlet shopper is a female in her late thirties compared to the same customer for an off-price stores in her early thirties. Significantly, factory outlets attracted a larger number of people in their fifties and sixties.

5.2 Retailer/Developer Profile

5.2.1 U.S./New England Developer Activities

The segmentation of the value retail industry in recent years has provided new challenges to the developer in relation to outlet and off-price retailers. During the 1980s many combined outlet/off-price malls or centres were abandoned as developers realized that off-price stores could conveniently situate in centres closer to suburbs or

near regional malls. Meanwhile, factory outlets discovered more customer appeal for villages or centres where several direct-from-the-factory outlets were available. The purity of these outlet centres has proven an extremely successful marketing strategy for retailers and developers.

While developers have been responding to the demand for more factory outlets and off-price sites, over-development could become a distinct possibility. In 1981, there were only 26 factory outlet malls; by 1988 Value Retail News indicated at least 210 facilities in the U.S. Bigger challenges are beginning to face developers who wish to establish outlet centres. Out of 25 developers interviewed by VRN in 1987, the greatest challenge identified by developers was over-development and a shortage of sites. Fully 54 percent of developers subscribed to this belief, and 50 percent complained about the availability of suitable sites.

5.2.2 Canadian Developers

The pace of factory outlet or off-price centre development in Canada has been spotty and sporadic. Modest attempts were made by Canadian-based developers in Ontario and Quebec in the early eighties to establish value retail malls with a tenant mix of outlets and off-price stores. Bramalea Corporation's Outlet Centre in Brampton, Ontario in 1982 failed when customers did not respond positively to its location in an industrial park. Likewise, the Centre could not maintain a "pure" factory outlet system because of pressure from retailers in the area. This left the project with a mixture of discounters. First Plaza Inc. of Toronto moved into value retailing in 1985-86 with the conversion of the Dixie Mall in Mississauga. In addition, the Lawrence Plaza in North York was promoted as an off-price centre. In reality, only 30 to 50 percent of their tenants can be defined as off-price stores while the remainder are discounters and conventional retail. Some of the more prominent value retail stores include Hudson's Bay Budget Store; Willy Wonderful outlet shops, an apparel off-price store; and Winners Apparel Ltd.

Recent efforts by Enterprise Property Group of Toronto to establish the King Value Centre in Kitchener is another attempt to develop an off-price mall. While it is a conversion of an older shopping centre, the development manager, Mr. David Pidgeon,

feels the location will not disturb normal relationships with conventional retailers. As well, the securing of a Sears Brand Central outlet as an anchor will contribute to the mall's credibility. With its planned opening in 1990, the centre expects to draw on the regional population and sees no adverse effect from the Outlet Mega-Mall development in Buffalo, N.Y., scheduled for completion in 1991.

5.3 Industry Trends

5.3.1 Retail Trends in the United States

As factory outlets and off-price stores continue to proliferate, sharper distinctions are being made between these two forms of retailing. Data developed by **Value Retail News** since 1984 indicates a steady rise in the sales per square foot for both outlet centres and off-price chains. Sales growth for 1988 averaged $211 per square foot, up 7.6 percent over the $196 reported in the previous year. Off-price stores averaged $237 per square foot against $226 per square foot; an increase of approximately 5 percent. While these growth rates are not as substantial as other years, they exceed sales growth averages in the conventional retail sector by more than double. For a more specific example, outlet and off-price sales growth for women's apparel averaged about 9 percent in 1988. During the same period department and specialty stores realized growth rates of -3 and 4 percent, respectively.

Presently, the similarities between outlet and off-price stores become less distinct. During the early eighties, off-price chains expanded at rates of 20 percent annually and more. Not until 1986 did outlets experience greater growth. Part of this change was a result in the maturation of off-price projects. Off-price centres, unlike factory outlets, were able to proceed with expansionary programs because they were not restricted in sourcing their goods, obtaining adequate financial backing or attracting retailing talent to manage their operations. Consequently, in 1988 off-price chains could boast twice as many stores as outlet chains. Furthermore, the average off-price chain operated nearly three times as many stores as the outlet chain. Finally, the size and capacity of off-price stores is substantially greater than factory outlets which are limited by a supply of goods.

These differences have meant the development of separate retailing strategies. While off-price store expansion is far from over, the opportunities in factory outlet development are becoming more appealing and innovative.

Forecasters predict that these forms of value retailing could expand to capture up to 15 percent of the national retail market in the next few years. The lion's share of this growth belongs to the off-price group; factory outlet growth will likely not exceed one percent. This could mean a saturation point for the off-pricers. On the other hand,outlet stores that are self-regulated in their growth by their manufacturing parents may avoid some of the future problems facing other aspects of value retailing.

5.3.2 Canadian Trends

Forecasting the direction of value retailing in Canada is precarious at best. Several efforts to establish off-price projects or factory outlets have had mixed results. In most cases, the primary objective by developers has been an attempt to salvage existing shopping centres or real estate by attracting tenants through lower leases and rents. Consequently, little thought has been given to a distinctive marketing strategy. Handicapped by diminishing sources of supply, projects have become little more than cheap discount centres.

For all intents and purposes, Canada's venture into value retailing with an emphasis on factory outlets is at a stage equivalent to the United States in the 1960s and early 1970s.

5.3.3. Potential for New Brunswick

If the development of a factory outlet system in the province is not restricted entirely to New Brunswick manufacturers and developers, there are several potential opportunities:

- a structured factory outlet system would provide a retail avenue for some New Brunswick manufacturers;

- a factory outlet development could focus marketing of New Brunswick products and raise awareness of the variety of goods produced in the province;

- potential outlet developments may entice New Brunswick manufacturers to consider this type of marketing strategy as a means of increasing production;

- development of a factory centre, mall or village complex could attract considerable outside investment. A case in point is the Enterprise Property Group of Kitchener, Ontario who have already expressed an interest in a potential joint venture in New Brunswick;

- while soft goods, i.e., apparel, footwear, are commonly available in factory outlets in the United States, hard goods such as furniture, wood products, crafts and metal works could provide a new marketing direction unique to New Brunswick;

- our proximity to Maine and its success with outlets as near as Ellsworth may signal an opportunity for New Brunswick entrepreneurs to undertake a joint venture with an established outlet in Maine. Not only could this involve the export of New Brunswick products but incorporate a reciprocal distribution system in Canada of U.S. products;

- presuming a New Brunswick factory outlet centre would not be exclusive to provincial manufacturers, a prospective developer could attract other well known Canadian producers who foresee outlet retailing as a means of enhancing sales in the region. Examples might include: Far West Industries, Sun Ice Ltd., Noma Industries, Benetton Group and Charon Industries; and

- Opportunities could exist for New Brunswick entrepreneurs to operate marketing and distribution networks for other Canadian and U.S. products that are compatible with factory outlet retailing. These services

might include mail order and catalogue fulfilment or warehouse centres for factory outlets. Major operations such as L.L. Bean, Fanny Farmer and London Fog presently do this.

6.0 POTENTIAL EFFECTS OF VALUE RETAILING ON NEW BRUNSWICK

6.1 Employment Creation

Employment creation from the potential development of value retail outlets in New Brunswick can be categorized as follows:

- construction-related employment during the development phase;
- direct employment (or maintenance of existing employment) in the New Brunswick manufacturing sector due to an increased market for the products produced;
- direct employment in the retail sector through jobs created in value retail outlets; and
- employment in the tourism and service sector through increased demand for accommodations and food services and increased traffic.

6.2 Market for Manufacturer's Product

In New Brunswick, the potential of value retailing as a means of expanding markets for provincial manufacturers is limited by the type of products produced and the production capacity of relevant manufacturing facilities. If outlets are developed using the successful formula from the eastern United States involving brand name products, there may be limited opportunity to sell New Brunswick manufactured products in these stores as part of the overall development. Similarly there may be opportunities for Maritime products.

6.3 Tourism Industry Benefits

The tourism industry is an essential ingredient in the success of value retailing outlets in the United States. Tourist traffic represents one of the ten locational criteria considered by developers in deciding to proceed with facility construction.

The increased traffic generated by value retail developments which, once they achieve critical mass, constitute tourist attractions in themselves, are a major source of revenue to the tourism industry. Location of a value retail development at any of the locations assessed in the province would have positive benefits by contributing to viability of existing services and attraction and, in the long term, potentially stimulating growth in the tourism industry.

6.4 Taxation Revenue

Taxation revenues would be impacted by the establishment of value retail outlets in New Brunswick including increased tax base in communities in which the outlets are located and increased sales and income taxes.

6.5 Pressure on Infrastructure

The pressures on infrastructure related to such developments can be summarized as follows:

- increased requirements for planning in relation to potential developments either at the Provincial or municipal level;
- need for effective communication between the outlet mall developer and the Province, municipality, local merchants and local residents;
- effects of the new facility on existing municipal water and sewer services in the case of locations within a municipality;
- effects of the new facility well and septic system/package treatment system on local wells and groundwater systems;
- need for expanded parking facilities for locations within municipalities;
- need for expanded traffic circulation facilities;

- need for efficient and safe pedestrian movement between malls/stores/service facilities; and

- increased requirements for police and fire services.

6.6 Effects on Unconditional Grant System

Municipalities in New Brunswick receive a transfer payment from the provincial government in the form of an unconditional grant to offset some of their operating costs. Based on a defined formula, this grant can form a considerable portion of the revenue for a municipality's annual budget. In the case of smaller villages, the grant could exceed 60 percent of the budget's revenue, while in large centres the percentage is sharply decreased.

Comparisons can be drawn between the effects of value retailing establishments on the unconditional grant system in New Brunswick and the effects of outlet based increases in the assessed values in Maine communities on educational support payments from the State to these communities. This represented a major irritant to Maine communities.

6.7 Potential Effects on Existing Retailers

The existing retail structure will typically be most affected by the almost overnight introduction of a considerable amount of retail space, albeit of a specialized nature, into the local market place. The subsequent loss in retail sales in the local stores may force some of these merchants to go out of business.

6.8 Quality of Life

As has been discussed elsewhere in this section, the development of value retail malls in smaller communities detrimentally affected the quality of life of the original inhabitants by:

- reducing their opportunities to shop in local stores (as a number of local retailers go out of business);

- decreasing access to retail outlets for the non-automobile owning residents of the community (as often a car is essential to access these suburban retail facilities);

- land values increasing rapidly, further encouraging the diminution of community cohesion as long-time residents sell-out and move to less expensive (and likely more quiet) areas;

- growing traffic congestion, noise, crime and other aspects of urbanization affecting smaller rural communities;

- outsiders, both store managers and staff, coming into the community and failing to play an active role in community affairs (a problem often caused by both the informal barriers created by the local community establishment and the truncated management systems of regional and national chain stores); and

- an overall decrease in the apparent quality of life in the community (things just are not the same as they once were).

7.0 CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

7.1.1 Major Conclusions

- The value retail concept, on the strength of successes in New England and the ability of New Brunswick locations to satisfy the developed locational criteria, would be viable for New Brunswick subject to the following:

  - Any value retail development must include brand name goods and not be restricted to New Brunswick or Canadian products;

  - Any New Brunswick value retail development must attempt to provide a unique experience in terms of design, product offering, service and value;

  - Should a value retail development be established within the established free trade zone area, care must be taken to ensure that stores in the development not conflict with existing retail operations; and

  - The establishment of any value retail development must be preceded by a comprehensive Financial Feasibility study into the overall mall and the individual component stores.

- **Sussex offers the highest potential for location of value retailing facilities in New Brunswick.** Although Moncton scored higher and Saint John scored equally against the ten locational criteria, these two urban shopping destinations would likely be considered unsuitable by potential developers in view of free trade zone limitations.

- **New Brunswick manufacturers have little potential to take advantage of value retail merchandising as a means of selling products due to lack of brand name recognition, limited production capacity and inappropriate product type.**

7.2 Recommendations

- **The role of the Provincial and Federal governments in relation to potential value retailing outlet developments in New Brunswick should continue to be passive but supportive.** The market will determine the opportunity for such developments in the province and active government support of the concept would be unfair to other retailers.

- **The Province should be prepared to act as a "facilitator" in the development process supporting municipalities in negotiation with developers and providing prospective developers with the findings of this study.** In addition, the province and municipalities should insist on the provision of an objective socio-economic impact assessment of a proposed value retail development as part of the approval process.

- **If value retail outlet developments proceed in New Brunswick, the Province should assure that infrastructure concerns are adequately addressed.** Negative impacts of such developments can be minimized if development is controlled.

- **Site specific feasibility studies should be carried out for any proposed development in New Brunswick.**

- **Potential developers of outlets in New Brunswick should be encouraged to develop a thematic architectural approach to building design such as is currently being pursued in the United States in order to develop a distinctive market image.**

7.3 Implementation

7.3.1 Departmental Role

Upon receipt of the final report, the role of the Department of Commerce and Technology in relation to project implementation should be clarified. The Department

can take either a proactive or reactive position, both of which can be consistent with the current Departmental position.

A proactive position would involve active liaison with developers, New Brunswick entrepreneurs and manufacturers and potentially affected municipalities to stimulate interest in the concept. The role of the Department would be to bring the parties together whereupon the private sector would assume leadership. The advantage to this approach is that there would be some control over the direction such development would take without directly involving government in the "bricks and mortar".

A reactive approach would involve making the report publically available and waiting for the private sector to take the initiative in whatever direction it chooses. Although this would assure that the Department would not become directly involved in development, it would reduce the potential to control the negative effects of such developments.

It is recommended that the Department of Commerce and Technology take a proactive approach in concert with other implicated departments including Tourism, Recreation and Heritage, Municipal Affairs and Transportation.

7.3.2 Distribution of Report

It is recommended that, prior to general public release of the study results, copies of the report be made available to the eleven municipalities considered in the evaluation.

The Department of Commerce and Technology should then issue a press release announcing the completion of the study and the availability of the report. This, in itself, will stimulate a certain amount of interest in the concept.

Copies of the reports should be distributed to those departments which would be implicated should factory outlets be constructed in the Province, namely Tourism, Recreation and Heritage, Municipal Affairs and Transportation (minor implications).

7.3.3 Industry Watch

The factory outlet concept is experiencing great success throughout the United States and, more importantly, within fifty miles of the New Brunswick border in Maine. It is, thus, likely that the private sector will view New Brunswick as an opportune place to pursue outlet development. It is essential that government be prepared to deal with the concept accordingly and this will only be possible if government is fully cognizant of industry development and trends.

It is recommended that the Department of Commerce and Technology subscribe to Value Retail News and obtain annually copies of The Art & Science of Outlet and Off-Price Retailing and Development and The Book on Value Retailing. These publications are the definitive industry watch reports.

The Department should send a representative to one of the twice-yearly value retail conventions sponsored by Value Retail News. Participants in these conventions include developers, manufacturers and key industry participants. Attendance at these gatherings would bring the Department to the front lines of the industry.

The Department of Commerce and Technology should also monitor planned/proposed developments in Ellsworth, Truro and Moncton all of which could affect potential developments in New Brunswick.

7.3.4 Liaison Activities

The Department of Commerce and Technology should liaise with each of the municipalities considered in the study prior to public release of the report. This will assure that the results of the report are understood and may avert a negative reaction were the report to be summarily released.

The Department should make New Brunswick manufacturers aware of the report and its findings and liaise with those manufacturers which have potential for marketing through this medium.

Liaison with potentially affected New Brunswick government departments would assure that maximum advantage would be taken of any factory outlet development and that the problems associated with any such development would be minimized.

Should the Department decide to take a proactive approach to implementation, it could facilitate a meeting between the Enterprise Property Group of Toronto, Ontario and any interested local entrepreneurs and/or municipalities. Priority should be given to the Sussex area consistant with the report findings.